

Testimony before the U.S. House Committee on Agriculture  
“Examining Legislative Improvements to Title VII of the Dodd-Frank Act”

Jim Colby  
Assistant Treasurer,  
Honeywell International Inc.

March 14, 2013

Mr. Chairman, Ranking Member Peterson, and other members of the Committee, thank you for inviting me to testify at this important hearing. I am an assistant treasurer at Honeywell International and today I speak on behalf of both Honeywell and commercial end-users.

Honeywell is a diversified technology and manufacturing leader, serving customers worldwide with aerospace products and services; control technologies for buildings, homes and industry; turbochargers; and performance materials. Honeywell's growth is driven by technologies that address some of the world's toughest challenges such as energy efficiency, clean energy generation, safety & security, globalization and customer productivity. The company's more than 132,000 employees include 20,000 scientists and engineers who are focused on developing innovative products and solutions that help Honeywell's customers – and their customers – improve performance and productivity.

Honeywell is truly a global company, with more than 50 percent of our sales outside of the United States and we are therefore exposed to market risks from changes in interest rates, foreign exchange rates and commodity prices. When appropriate, we hedge exposures through the use of derivative contracts. The purpose of our hedging activities is to eliminate risks that we cannot control, allowing us to focus on our core strengths, namely delivering high-quality products, on time, to our customers in a manner that not only meets, but exceeds expectations. We do not use derivatives for speculative purposes.

I'll provide some examples to demonstrate how we use derivatives. We sell satellite and launch vehicle inertial measurement units manufactured in Florida to customers in Germany. Europe is a key growth market for commercial space products and, in order to qualify for consideration on certain opportunities, we may be required to enter into contracts denominated in Euros even though all costs of production are incurred in U.S. Dollars. The period for this type of contract can span multiple years, during which changes in the value of the Euro versus the U.S. dollar can significantly impact its economic viability. To mitigate this risk, we may enter into a forward contract to sell an amount of Euros equal to our net exposure to lock in the market rate.

Honeywell sells catalysts and adsorbents manufactured in multiple U.S. manufacturing plants to customers in the refining industry. As a refinery starts-up, a supply of catalysts is required to operate it and Honeywell will attempt to arrange a Catalyst Supply Agreement with the customer as part of the overall package. During contract negotiations, some European customers will require sales contracts to be denominated in Euros, whereas all costs of production are incurred in U.S. Dollars. To mitigate this risk, Honeywell may enter into a forward contract to sell an amount of Euros equal to our net exposure to lock in the market rate.

Honeywell carefully manages its ratio of fixed-to floating rate debt in order to lower its overall cost of debt, while providing sufficient interest rate certainty to accurately forecast and manage interest expense. Floating rate debt has historically been cheaper than fixed-rate debt, but cannot be easily issued in longer maturities, thereby exposing Honeywell to refinancing risk. Honeywell uses interest rate derivatives to convert a portion of its fixed-rate debt to floating, thereby creating a synthetic floating rate note with a longer-term maturity than can be issued directly in the capital markets.

With compliance deadlines for end-users looming, Honeywell is concerned with the direction in which certain rules appear to be heading. We strongly support two pieces of legislation that have been referred to your committee. H.R. 634 would exempt transactions in which a non-financial end-user is a party from margin requirements, whereas H.R. 677 would exempt inter-affiliate transactions of end-users from clearing requirements.

Today I will focus on the margin bill, as it is of particular interest to Honeywell. In approving the Dodd-Frank Act, Congress made clear that end-users were not to be subject to margin requirements. Nonetheless, regulations proposed by the Prudential Banking Regulators could require end-users to post margin. This stems directly from what they view to be a legal obligation under Title VII. While the regulations proposed by the CFTC are preferable, they do not provide end-users with the certainty that legislation offers. According to a Coalition for Derivatives End Users survey, a 3% initial margin requirement could reduce capital spending by as much as \$5.1 to \$6.7 billion among S&P 500 companies alone and cost 100,000 to 130,000 jobs.

To shed some light on Honeywell's potential exposure to margin requirements, we had approximately \$2 billion of hedging contracts outstanding at year-end that would be defined as a swap under Dodd-Frank. Applying 3% initial margin and 10% variation margin implies a potential margin requirement of \$260 million. Cash deposited in a margin account cannot be productively deployed in our businesses and therefore detracts from Honeywell's financial performance and ability to promote economic growth and protect American jobs.

The following is an excerpt of a question and answer session on July 17, 2012 between Senator Mike Crapo and Federal Reserve Board Chairman Ben Bernanke at the Hearing of the Senate Banking, Housing and Urban Affairs: "The Semiannual Federal Reserve Monetary Policy Report to the Congress." This dialogue underscores why a Margin bill is necessary.

**Senator Crapo:** "According to the proposed rule, the proposal to require margins stems directly from what they view to be a legal obligation under Title VII. Recently I offered an amendment with Senator Johanns to fulfill Congressional intent by providing an explicit exemption for margin requirements for non-financial end users that qualify for the clearing exemption. The amendment is identical to the House bill which passed the House by a vote of 370 to 24."

"Is it accurate in your opinion, that regardless of congressional intent, the banking regulators view the plain language of the statute as requiring them to impose some kind of margin requirement on non-financial end users unless Congress changes the statute?"

**Chairman Bernanke:** "We believe that the statute does require us to impose some type of margin requirement. We tried to mitigate the effect as much as possible by allowing for exemptions when

the credit risk associated with the margin was viewed as being sufficiently small. So many small end users would be exempt in practice.”

**Senator Crapo:** “Do you agree that the nonfinancial end users hedging does not contribute to systemic risk, that the economy, the economic benefits from their risk management activity -- excuse me -- that the economy benefits from their hedging activity and that it's appropriate for Congress to provide an explicit exemption for margin requirements for nonfinancial end users that qualify for the clearing exemption?”

**Chairman Bernanke:** “I certainly agree that nonfinancial end users benefit and that the economy benefits from the use of -- of derivatives. It seems to be the sense of a large portion of the Congress that that exemption should be made explicit. And speaking for the Federal Reserve, we're very comfortable with that proposal.”

We are not interested in dismantling Dodd-Frank. We are simply trying to ensure that the final Act and rules function as intended and that commercial end-users do not face the same regulatory burden as those who speculate and create systemic risk. Not only did commercial end-users not contribute to the financial crisis, but they were a safe-haven during the financial turmoil. Investors who were afraid to invest in the debt of financial institutions were actively purchasing the debt of companies like Honeywell, companies that prudently use derivatives to manage and reduce risk and who continued to be profitable throughout the financial crisis, with no need for government assistance.

In conclusion, we need Congress to enact legislation so that end-users like Honeywell will continue to have the ability to manage risk without having margin requirements imposed on us.

Thank you for inviting me to testify today. We greatly appreciate the support that the Committee has provided and I look forward to answering any questions that you may have.

Committee on Agriculture  
U.S. House of Representatives  
Information Required From Nongovernmental Witnesses

House rules require nongovernmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. **Name:** James E. Colby
2. **Organization you represent:** Honeywell International
3. **Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:**

Assistant Treasurer at Honeywell International since November 2004. Previous work experience includes: Director, Global M & A, Banking and Cash Management, Honeywell International and various other positions in finance at Honeywell, Bear Stearns, UBS and General Motors.

4. **Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:**

QUEEN'S UNIVERSITY, Kingston, Ontario, Canada, M.B.A., 1985; Honors B.Sc. (Biology), 1983

5. **If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:**

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PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF  
TESTIMONY.

Committee on Agriculture  
U.S. House of Representatives  
Required Witness Disclosure Form

House Rules\* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2010.

Name: James E. Colby

Organization you represent (if any): Honeywell International

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2010, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2010, as well as the source and the amount of each grant or contract:

Honeywell sales to the U.S. Government (principally by Honeywell's Aerospace segment), acting through its various departments and agencies and through prime contractors, amounted to \$4,109, \$4,276 and \$4,354 million in 2012, 2011 and 2010, respectively. Customer-sponsored (principally the U.S. Government) R&D activities amounted to an additional \$835, \$867 and \$874 million in 2012, 2011 and 2010, respectively.

Please check here if this form is NOT applicable to you: \_\_\_\_\_

Signature:  3/11/13

\* Rule XI, clause 2(g)(3) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

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